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UNITED STATES DISTRICT COURT

EASTERN DISTRICT OF WASHINGTON

PHILIP MORRIS USA INC.,

Plaintiff,

v.

KING MOUNTAIN TOBACCO COMPANY, INC.; MOUNTAIN TOBACCO; DELBERT L. WHEELER, SR., AND RICHARD "KIP" RAMSEY,

Defendants.

No. CV-06-3073-RHW

DEFENDANTS' RESPONSE TO MOTION FOR PRELIMINARY INJUNCTION

Date: 11/14/06
Time: 2:00 p.m.
Place: Yakima, WA

I. INTRODUCTION

This Court should deny Philip Morris USA Inc.'s ("PM" or "Philip Morris") motion for a preliminary injunction for several reasons. First, service has not been properly effectuated on Defendants. *See* Defendants' Motion to Dismiss For Improper Service. Second, Plaintiff failed to exhaust its tribal court remedies and should be required to do so in Yakama tribal court before seeking relief here. *See* Defendants'

Motion to Dismiss For Failure To Exhaust Tribal Remedies. Third, trademark cases are "intensely factual." Philip Morris has failed to establish that it is likely to succeed or that it has raised serious questions going to the merits and that the balance of hardships tips strongly in its favor. Instead, Philip Morris leaps to a series of conclusions based upon conjecture, self-serving assumptions, and phantom or disputed evidence. These are hardly the legal and factual predicates that would entitle Philip Morris to the injunctive relief that it asks this Court to dispense. The motion for preliminary relief should be denied.

II. STATEMENT OF FACTS

Mr. Delbert Wheeler ("Wheeler") and Mr. Kip Ramsey ("Ramsey") are both Native Americans, enrolled members of the Yakama Indian tribe, and residents of Yakama Indian Reservation. Declaration of Delbert L. Wheeler, Sr. ("Wheeler Decl.") ¶ 2; Declaration of Richard Kip Ramsey ("Kip Ramsey Decl.") ¶ 2. Like many Indian cultures, tobacco has long been an integral part of the Yakama's culture. Wheeler Decl. ¶¶ 3, 5. Tobacco is used in a variety of tribal settings and for a variety of tribal purposes, including religious ones. Wheeler Decl. ¶ 5. In 1998, Wheeler began researching ways to create a new type of cigarette tobacco blend and filter system. Wheeler Decl. ¶ 10. His goal was to create a quality cigarette product that would be available at an affordable price. Wheeler Decl. ¶ 10; Kip Ramsey Decl. ¶ 11.

To facilitate the manufacture, marketing, and distribution of this new cigarette product, Wheeler formed Mountain Tobacco Company d/b/a King Mountain Tobacco, Inc. ("King Mountain"). King Mountain is a corporation organized and operating under the laws of the Yakama Nation Tribal Code, Chapter 30.05. *See* Kip Ramsey Decl. ¶ 3 and Ex. A, Ex. B and Ex. C. Wheeler and Ramsey decided that King

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Mountain products would be marketed and sold only to Indian smoke shops located on tribal lands. Wheeler Decl. ¶ 10; Ramsey Decl. ¶ 8. Mountain Tobacco Distributing Company, Inc. ("Mountain Tobacco") was formed as a Washington Corporation. Kip Ramsey Decl. ¶ 5; Wheeler Decl. ¶ 2. To date, all direct sales of King Mountain products have been made from King Mountain to Indians on Indian Lands. Kip Ramsey Decl. ¶ 5; Wheeler Decl. ¶ 2.

In early 2004, Wheeler began exploring potential product names and packaging designs for the new cigarette product. Wheeler Decl. ¶ 6; Kip Ramsey Decl. ¶ 10. In this regard, several key design features were significant to both Wheeler and Ramsey.

First, it was important that the cigarette package create its own commercial identity, that it be readily identifiable to consumers, and, most importantly, that the package incorporate and prominently display symbols of great significance and tradition to the Yakama Indian Nation. For example, it was important that the package prominently display the image of Mount Adams, or "Pahto" (which means "Standing High"), as it is known to the Yakamas. Wheeler Decl. ¶ 3. Pahto has great cultural relevance to the Yakamas, as it is the mountain that "feeds us, supplies us with water, food and medicine." Wheeler Decl. ¶ 3. Pahto has significant personal relevance for Wheeler as it was at the base of Pahto where Wheeler "first fasted" and received "his songs." Wheeler Decl. ¶ 3.[1] Goods marked with the image of Pahto would be recognized as being produced by Indian businesses, which was particularly important given that the goods were only going to be marketed to Indian companies and Indian tribes. Wheeler Decl. ¶¶ 4, 10. Additionally, it was important that the

[1] In an effort to avoid redundancies, but at the same time not wanting to minimize the significance of Pahto to the Yakama people and Mr. Wheeler personally, we refer the Court to the Declaration of Delbert Wheeler ¶¶ 3-5.

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packaging include the profile of "Chief Kamiakan", the historic and revered chief of the Yakama tribe and Wheeler's great, great, grandfather. Wheeler Decl. ¶ 8. The profile of Chief Kamiakan has been used repeatedly as a logo for Wheeler Logging, another business owned by Mr. Wheeler. *See* Wheeler Decl. ¶ 8. Wheeler also incorporated an image used by Kip Ramsey as a logo for Tiin Ma ("the People") Logging Company. Wheeler Decl. ¶ 8; Ramsey Decl. ¶ 10.

Second, as with any small start-up business, overhead and production costs were important to control. Wheeler Decl. ¶ 7. Thus, Wheeler attempted to limit the number of colors on the packaging because fewer colors results in a lower production costs. Wheeler Decl. ¶ 7.

In exploring possible designs and names, Wheeler looked at dozens of brands of cigarettes in an attempt to come up with a distinctive packaging that was unique. Wheeler Decl. ¶ 6. Additionally, consideration was given as to how the mountain and the brand name would appear on the package in order to maximize the commercial impression of the product and create a unique brand identity. Wheeler Decl. ¶ 6. After a series of experiments with different package colors, type font, and potential names, Wheeler decided that the brand name would be "King Mountain" and Pahto (Mt. Adams) would be prominently featured on the center and sides of the pack. Wheeler Decl. ¶ 6.

Wheeler decided to use the conventional colors used to identity the type of cigarette being offered, i.e., "red" for full flavored cigarettes, "gold" for light cigarettes, blue for ultra lights, and "green" for menthol cigarettes. Wheeler Decl. ¶ 8; Kip Ramsey Decl. ¶ 10. In addition, Wheeler chose a black font on a white background because this was the least expensive means for creating the package and also was the clearest way to communicate the product's name to the consuming

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public. Wheeler Decl. ¶¶ 6, 7.

King Mountain sold its first cigarette at the end of November 2005. Wheeler Decl. ¶ 11. From the beginning, sales of King Mountain have been made exclusively to either tribes or Indian businesses operating on tribal lands. Wheeler Decl. ¶ 10; Kip Ramsey Decl. ¶ 8. Defendants have never marketed or sold any of their King Mountain products online. Kip Ramsey Decl. ¶ 9. Since their introduction into the market almost a year ago, King Mountain cigarettes have been widely praised and recognized in the industry as a quality cigarette with a relatively inexpensive price as compared to "premium brand" cigarettes. Wheeler Decl. ¶ 10; Kip Ramsey Decl. ¶ 11; Declaration of Tim Davis ("Davis Decl.") ¶¶ 9, 14; Declaration of Faron Young ("Young Decl.") ¶ 9; Declaration of John Hunter ("Hunter Decl.") ¶¶ 9, 10; Declaration of Virgil Thomas ("Thomas Decl.") ¶ 11.[2]

III. LAW & ARGUMENT

A. PRELIMINARY INJUNCTION STANDARD

"The grant of a preliminary injunction is the exercise of a very far reaching power never to be indulged in except in a case clearly warranting it." *Mayview Corp. v. Rodstein*, 480 F.2d 714, 719 (9th Cir. 1973). The Ninth Circuit has repeatedly indicated that trademark disputes are "intensely factual" in nature. *See, e.g., KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 408 F.3d 596, 602 (9th Cir. 2005). This case is no different. As such, PM is entitled to a preliminary injunction only if it "demonstrates either (1) a combination of probable success on the merits and the possibility of irreparable injury or (2) the existence of serious questions going to

[2] Defendants analyze and discuss with particularity in Section III all of the alleged "facts" presented by PM that supposedly support its claim for injunctive relief.

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the merits and that the balance of hardships tips sharply in his favor." *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1046 (9th Cir. 1999). Notwithstanding the "intensely factual" nature of this dispute, Philip Morris comes to this Court asking for preliminary relief even though it has, in several respects, outright failed to produce any evidence to support its contentions, has produced evidence that is conclusory, self-serving, verifiably false, or a combination of all of these. The motion for preliminary relief must be denied.

B. THIS COURT SHOULD NOT ENTER AN INJUNCTION BECAUSE DEFENDANTS HAVE NOT BEEN PROPERLY SERVED AND PLAINTIFF HAS FAILED TO EXHAUST ITS TRIBAL COURT REMEDIES.

As an initial matter, this Court should refuse to enjoin Defendants because they have not been properly served with the summons and complaint as required by law. *See* Defendants' Motion To Dismiss For Improper Service. Additionally, this Court should refrain from exercising jurisdiction over this case because Philip Morris is required to first exhaust its tribal remedies. *See* Defendants' Motion To Dismiss For Failure To Exhaust Tribal Remedies. For both of these independent reasons, the motion for preliminary relief should be denied.

C. THIS COURT SHOULD NOT ENTER AN INJUNCTION BECAUSE PHILIP MORRIS HAS FAILED TO ESTABLISH THAT THERE IS THE LIKELIHOOD OF CONFUSION OR THAT DEFENDANTS ARE DILUTING PM'S TRADEMARKS OR TRADE DRESS.

In this "intensely factual" dispute, PM has failed to produce evidence to show it will likely prevail under 15 U.S.C. §§ 1114 and 1125(a) and (c), or under its state statutory or common law causes of action. Consequently, the motion for preliminary relief should be denied.

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1. PM Failed To Carry Its Burden of Establishing That It Is Likely To Prevail On Any of Its Claims.

"The core element of trademark infringement is the likelihood of confusion, i.e., whether the similarity of the marks is likely to confuse customers about the source of the products." *Brookfield Communications, Inc.*, 174 F.3d at 1053. Actionable confusion for purposes of a trademark infringement analysis must be "probable, not simply a possibility." *Murray v. Cable NBC Co.,* 86 F.3d 858, 861 (9th Cir.1996). Additionally, "[t]o constitute trademark infringement, use of a mark must be likely to confuse an *appreciable* number of people as to the source of the product." *Entrepreneur Media, Inc. v. Smith*, 279 F.3d 1135, 1151 (9th Cir. 2002) (emphasis in the original); *see also, Kendall-Jackson Winery,* 150 F.3d at 1052 (noting that the standard is whether "a *significant* portion of the general public" is likely to be confused). (Emphasis added.)

To evaluate whether Plaintiff has established its burden of proving trademark infringement, this Court must find that it has satisfied the "*Sleekcraft* factors." *See AMF Inc. v. Sleekcraft Boats,* 599 F.2d 341, 346 (9th Cir. 1979). They are: (1) the similarity of the marks; (2) the relatedness or proximity of the two companies' products or services; (3) the strength of the registered mark; (4) the marketing channels used; (5) the degree of care likely to be exercised by the purchaser in selecting goods; (6) the accused infringers' intent in selecting its mark; (7) evidence of actual confusion; and (8) the likelihood of expansion in product lines. *See Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1018-19 (9th Cir. 2004). Only elements 1-7 have applicability to this case. *See* Plaintiff's Memo., p. 10, fn 4.

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Plaintiff carries additional burdens on its "trade dress infringement" claims. "Trade dress refers generally to the total image, design, and appearance of a product and "may include features such as size, shape, color, color combinations, texture or graphics." *Clicks Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1257 (9th Cir. 2001). In order to prevail under a claim of "trade dress" infringement, PM must not only satisfy the "*Sleekcraft* factors", but must also prove that: (1) the trade dress is nonfunctional; and (2) the trade dress is inherently distinctive or acquired distinctiveness through secondary meaning. *See California Scents v. Surco Products, Inc.*, 406 F.3d 1102, 1109 (9th Cir. 2005). Plaintiff has failed to satisfy the "*Sleekcraft* factors", has failed to establish that its trade dress is non-functional, and has failed to establish its trade dress is inherently distinctive or has otherwise acquired "secondary meaning." Therefore, the request for injunctive relief must be denied.

2. Philip Morris Has Failed To Meet Its Burden of Proving Likelihood of Confusion under the "*Sleekcraft* Factors."

a. Similarity of the marks.

This Court begins by "comparing the allegedly infringing mark to the federally registered mark." *Brookfield Communications, Inc.*, 174 F.3d at 1054; *Moose Creek, Inc. v. Abercrombie & Fitch Co.*, 331 F.Supp.2d 1214, 1226 (C.D.Cal. 2004). Similarity is judged based upon how the goods appear in the marketplace and their sound, meaning, and appearance. *See, e.g., Dreamwerks Prod. Group v. SKG Studio,* 142 F.3d 1127, 1131 (9th Cir.1998). Similarities are weighed more heavily than differences. *See Official Airline Guides v. Goss,* 6 F.3d 1385, 1392 (9th Cir. 1993). *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1206 (9th Cir. 2000).

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i. "Marlboro" and "King Mountain" share no similarities in sound.

PM did not produce *any* evidence to suggest that "Marlboro" and "King Mountain" sound alike to the consuming public. Such a claim would be patently absurd, particularly in light of how courts of this circuit have concluded in other cases. *See, e.g., Nautilus Group, Inc. v. Savvier, Inc.*, 427 F.Supp.2d 990, 996 (W.D. Wash. 2006) (holding that "Bowflex" and "BodyFlex" did not sound alike); *Entrepreneur Media, Inc.*, 279 F.3d at 1145-46 (holding that a reasonable juror could find the marks "EntrepreneurPR" and "Entrepreneur" to be dissimilar in sound although the terms appear similar at first glance); *see also,* Declaration of Stephen Nowlis, MBA, PhD ("Nowlis Decl.") ¶ 23. Thus, PM cannot rely on this obvious disparity in sound to support a claim for preliminary relief.

ii. The trade dress of "Marlboro" and the trade dress of "King Mountain" share no similarities in meaning.

PM produced *no* evidence regarding the meaning given to the parties' respective trade dress packages by the consuming public. The evidence produced by Defendants, however, shows the trade dresses have completely different meanings to the consuming public. For example, Philip Morris developed the Marlboro trade dress in the 1950s to appeal to young American men that were "returning from an unsatisfactory war in Korea." *See* Declaration of J. Michael Keyes ("Keyes Decl.") ¶ Ex. G, pp. 10-11 attached thereto. According to Louis Cheskin, one of the original designers of the Marlboro trade dress, the key element on the bright red Marlboro pack was the crest because it looked like a "medal." *Id.* (Emphasis added). The name "Marlboro" was used because it "echoed the military title of Sir Winston

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Churchill's renowned ancestor, the Duke of Marlborough, a 17th Century general." *Id.*

By contrast, the term "King Mountain" and that product's trade dress has a very different "meaning." The mountain on the packaging is "Pahto" (Mt. Adams), which means "standing high." Wheeler Decl. ¶ 3. Pahto/Mt. Adams is sacred ground for all Yakama Indians and is an image on the packaging that symbolizes that the product has an Indian origin. Wheeler Decl. ¶¶ 3, 4. Pahto has personal significance and meaning to Mr. Delbert Wheeler, as it was at the base of the north side of the mountain where Mr. Wheeler was "given song", fasted, and learned of the ancient customs and traditions of his tribe. Wheeler Decl. ¶ 3. The brand name King Mountain and the image of Pahto along with the Indian profile is of great significance. The "Indian profile" superimposed upon the Indian arrowhead is Wheeler's great, great grandfather, Chief Kamiakin, a revered leader of great importance to the Yakama nation. Wheeler Decl. ¶ 8. Unquestionably, the meaning of the "Marlboro" packaging bears no relationship or similarity to the meaning of the "King Mountain" packaging in the marketplace.

Therefore, because: (i) PM produced no evidence regarding the meanings of the packages to the consuming public; and (ii) the packages shares no similarities in meanings in any event, PM has failed to meet its burden.

*iii. PM failed to produce **any** evidence to show similarities as the "Marlboro" and "King Mountain" cigarette packs are encountered in the marketplace.*

Any similarities "must be considered as they are encountered in the marketplace." *Alpha Industries, Inc. v. Alpha Steel Tube & Shapes, Inc.*, 616 F.2d 440, 444 (9th Cir. 1980). PM has not produced <u>one</u> piece of evidence to demonstrate

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how the allegedly-infringing cigarette packs are similar "as they are encountered in the marketplace."[3] The evidence produced by Defendants, however, shows that "Marlboro" and "King Mountain" packs: (i) do *not* appear together in the marketplace; (ii) appear behind counters and are only visible to store clerks; (iii) are not accessible to the general public; and (iv) consumers need to ask for the product "by name." *See* LaVilla Ramsey Decl. (general manager of Cougar Den); Hoptowit Decl. (owns and operates the Mabton Smoke Shop); Young Decl. (manager of ToppStop); Myers Decl. (owner of Kiles Korner); Hunter Decl. (general manager of Lil' Brown Smoke Shack, Inc.); Rosen Decl. (day shift manager at Frank's Landing); Davis Decl. (manager of the Goodman Road Smoke Shop); *see also,* Nowlis Decl. ¶¶ 23, 34, and 35. Thus, the only evidence produced regarding how these cigarettes packs are encountered in the marketplace, if anything, shows that the likelihood of confusion is unlikely.

iv. Virtually all similarities between the "Marlboro" and "King Mountain" trade dresses are dictated by industry convention or functional considerations.

As an initial matter, PM's "analysis" of the similarities between the "King Mountain" and "Marlboro" cigarettes packs violates the "anti-dissection" rule. *See*

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[3] PM produced one declaration and photograph that purports to show "Marlboro" and "King Mountain" ***cartons*** "side by side" in a store in New York. *See* Decl. of Albanese, ¶ 3. There are no foundational facts that show this is in fact how the goods appear in the marketplace. In any event, this photograph depicts the ***cartons***, not the individual packs of cigarettes. The similarities in the cigarette packages—not cartons—is the basis of PM's motion for preliminary relief. *See* PM Memo, pp. 5-7.

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PM Memo., p. 5-7; *see also Nissan Motor Co.,* 378 F.3d at 1013 (noting that mark is analyzed "by looking at it as a whole, rather than dissecting it into its component parts."). In any event, even breaking down the purported "similarities" between the two cigarette packs shows there are no actionable similarities here.

PM alleges the following elements on the King Mountain products constitute trademark and trade dress infringement: (a) the copying of the "red roof" design; (b) the word "Mountain" because it starts with a capital "M", has the same number of letters as "Marlboro", is on the "same place" on the pack as the word "Marlboro", and is the same font and size as "Marlboro"; (c) the "white banner" with lettering across the top; (d) the "similarly sized gold and red design", i.e., the "crest"; (e) the phrase "20 Class A Cigarettes" at the bottom of the pack; and (f) the "red" "gold", and "green" colors. *See* PM's Memo., pp. 5-7.

As set forth immediately below, virtually all of these claimed "similarities" are in fact misleading as there are substantial differences, such claimed similarities are found on other types of cigarette packs, and/or these claimed elements of their trade dress are dictated by functional considerations. Therefore, there is, at a bare minimum, several questions of fact that need to be determined before PM can establish its claims under either state or federal law, and before any preliminary injunction could ever issue.

v. The "crowded field doctrine" raises serious questions as to whether the Marlboro trade dress is distinctive.

As the Ninth Circuit has repeatedly noted, "[a] mark that is hemmed in on all sides by similar marks on similar goods cannot be very 'distinctive.' It is merely one of a crowd of marks. * * * * In a 'crowded' field of similar marks, each member of the crowd is relatively 'weak' in its ability to prevent use by others in the crowd." *See*

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Miss World (UK) Ltd. v. Mrs. America Pageants, Inc., 856 F.2d 1445, 1449 (9th Cir. 1988). With respect to the "red roof" design, the "white banner" with lettering, the "crest", and the phrase "20 Class A Cigarettes", there are several types of cigarette brands that contain either some or all of these similar characteristics. For example, GR, L&M, Marathon, and Carnival brands all contain a "red top" design that has a particular geometric shape or design. *See* Keyes Decl., Ex. A. These brands have been sold for several years. *See* Keyes Decl. Ex. A (showing smokes.com web page from 2002 showing cigarettes for sale).

"Marathon" starts with a capital "M" and has 8 letters, just like Marlboro. The "Melbourne" cigarette brand starts with a capital "M" and has 9 letters.[4] *See* Keyes Dec., Ex. B. Both "Marathon" and "Melbourne" are in black type against a white background and appear at the bottom of their respective cigarette boxes. "Maxxum" and "Mond" are other examples of cigarettes starting with a capital "M." *Id.* at Ex. C. Several different brands of cigarettes including A1, Calon, Carlyle, Kingsley, and Melbourne have a red top or red box containing either a white banner with lettering or just white lettering against the red backdrop itself. *See* Keyes Dec., Ex D. Numerous cigarette brands including Carlyle, Berkley, Marathon, Maxxum, Melbourne, and GT One contain a "crest" that is similar in size and design to the "Marlboro" crest. *Id.* at Ex E. The phrase "20 Class A Cigarettes" appears on several different brands of cigarettes at the bottom of the pack including A1, Ace, GT One, Melbourne, L&M, and Smokin' Joes.[5] Keyes Dec., Ex F.

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[4] In fact, just about every single cigarette brand available starts with a capital first letter. *See* Keyes Decl., Ex. A-F.

[5] The phrase "20 Class A Cigarettes" was specifically disclaimed by PM in its trademark registration. *See* Amended Complaint, filed 9-18-06, Ex. E.

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Thus, because all of these mentioned products (as well as others) contain similar trade dress features to "Marlboro", at the very least there are serious questions of fact as to whether the consuming public views the Marlboro trade dress as part of the "crowd of marks" in this field or as an inherently distinctive design. Given this uncertainty as to how the Marlboro "trade dress" is viewed by the consuming public, an injunction is simply not warranted.

vi. The similarities in appearance between the products are dictated by functional considerations.

Where an aesthetic product feature serves a "significant non trademark function," the doctrine may preclude protection as a trademark where doing so would stifle legitimate competition. *Qualitex Co. v. Jacobson Products Co.,* 514 U.S. 159, 170, 115 S.Ct. 1300, 131 L.Ed.2d 248 (1995). For example, when a portion of the product or packaging is "functional" that feature does not "enjoy protection under trademark law." *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, 457 F.3d 1062, 1067 (9th Cir. 2006). The *Au-Tomotive Gold* court recently indicated that the proper standard for assessing functionality is "whether protection of the feature as a trademark would impose a significant non-reputation-related competitive disadvantage." *Id.* at 1072. Although PM's trademark registrations may entitle it to a "presumption of non-functionality", that presumption disappears once evidence of functionality is presented. *See Tie Tech, Inc. v. Kinedyne Corp.*, 296 F.3d 778, 783 (9th Cir. 2002) (noting that once evidence of functionality is presented "the mark's registration is merely evidence 'of registration,' nothing more.").

Here, the colors red, gold, and green play a significant utilitarian role in the cigarette industry. Nowlis Decl. ¶ 30. The color "red" signifies that the cigarette is a

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"full flavored" cigarette, the color gold signifies that the cigarette is "light", and the color "green" indicates that the cigarette is "menthol." Nowlis Decl. ¶ 30 and Exs. G, J; Wheeler Decl. ¶ 8; Kip Ramsey Decl. ¶ 10; Hoptowit Decl. ¶ 18; Young Decl. ¶ 8; Hunter Decl. ¶ 17; Thomas Decl. ¶ 8; Rosen Decl. ¶ 18; Parry Decl. ¶ 9. The "red", "gold", and "green" colors provide an efficient way to communicate to the customer the type of cigarettes that are being sold. *Id.* Were King Mountain unable to use these colors in identifying its products, it would be at a significant competitive disadvantage because consumers would not be able to readily and easily identify what type of cigarette is being offered by King Mountain. *See, e.g., Dippin' Dots Inc. v. Frosty Bites Distrib.*, 369 F.3d 1197, 1204 (11th Cir. 2004) (holding that ice cream colors were functional because they indicate the "flavor of the ice cream, for example, pink signifies strawberry, white signifies vanilla, brown signifies chocolate.").

Additionally, the size, color, and placement of the "King Mountain" font is also dictated by functional concerns. The color black stands out best against a white background and is the most effective way to communicate the name of the product in the marketplace. Wheeler Decl. ¶ 7. Also, using the color black against a white background is less expensive in terms of the production costs of the packaging. Wheeler Decl. ¶ 7. Therefore, this use is functional. The placement and size of the "King Mountain" name towards the bottom portion of the pack is also necessary because any other placement or size would cause a distraction with the upper portion of the box design. Again, there are numerous examples of cigarette brands that place the name of the product towards the bottom of the box, particularly when the upper portion of the box contains some sort of design. Therefore, the size, color and placement of the words King Mountain cannot be the basis for a claim of trademark infringement. Similarities, if any, are dictated by functional considerations, and based

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on this alone an injunction should not issue.

vii. Similarities, if any, between the "King Mountain" and "Marlboro" packages are substantially outweighed by the numerous dissimilarities, and they do not create the same commercial impression.

Even if the Court were to find at this nascent stage of the proceeding that: (i) this is not a "crowded field"; and (ii) the similarities between the products are not dictated by functional considerations, an injunction is still wholly unwarranted. The ultimate inquiry on the "similarities" element of the "*Sleekcraft*" test is whether these two products create the same commercial impression in the marketplace. Numerous declarants have testified that the overall commercial impressions of the two products do not lead to confusion. Nowlis Decl. section IV, V, and VI; Hoptowit Decl. ¶¶ 17, 19; Young Decl. ¶ 9; Myers Decl. ¶ 7; Hunter Decl. ¶¶ 12, 15 and 16, Thomas Decl. ¶¶ 9 and 10; Rosen Decl. ¶¶ 12 and 14; Parry Decl. ¶ 10; Davis Decl. ¶¶ 10 and 13. At a minimum, these statements alone suggest that there are no actionable similarities between the products. Additionally, as set forth in the Declaration of Dr. Nowlis, there are numerous differences between the respective products that PM does not mention in its self-serving and incomplete analysis of the cigarette packs. Nowlis Dec. section IV, V, and VI. When all of this evidence is considered, an injunction is simply unwarranted at this stage as PM has failed to establish its burden of proving actionable similarities between the two products.

b. <u>The relatedness or proximity of the two companies' products or services.</u>

PM devotes one conclusory sentence to this factor claiming: "[s]ince the parties both sell cigarettes, this factor supports a claim of infringement." PM Memo., p. 10.

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Although both parties sell the same type of goods, that is never the end of the analysis. "Goods are related when they are complementary and where they are similar in use and function." *Nautilus Group, Inc.*, 427 F.Supp.2d at 996. In this regard, it is necessary to determine whether the parties sell their wares "to the same group of customers." *See Moose Creek, Inc.*, 331 F.Supp.2d at 1226. "Courts have noted that consumers differentiate between expensive and inexpensive goods." *Nautalis* at 996. In the cigarette purchasing industry, the price of the cigarette is the key component that drives purchasing decisions. Rosen Decl. ¶ 15; Parry Decl. ¶ 8; Hunter Decl. ¶¶ 8-9; Young Decl. ¶ 7; Hoptowit Decl. ¶ 16; *see also,* Nowlis ¶¶ 14, 16, and 19-21. "Marlboros" are in many instances twice as expensive as "King Mountains." Davis Decl. ¶¶ 15-16; Rosen Decl. ¶¶ 16-17; Hunter Decl. ¶¶ 6, 8. The web pages produced by PM confirm that cigarettes with "premium" prices are marketed separately than those of "value brands." The "Marlboro" products are marketed under the page "premium brand, whereas the King Mountain products are on a separate "value brand" webpage. Thus, the goods are not related, as one class appeals to the upper echelon of the purchasing public, where as the other appeals to a completely different demographic. Nowlis Decl. ¶ 21. Moreover, consumer research performed in this industry "shows that consumers are particularly unlikely to switch from a premium segment of the market (i.e., Marlboro) to a value segment of the market (i.e., King Mountain)." Nowlis Decl. ¶ 21 and Ex. I. In this regard, there are at least questions of fact as to whether the goods can be "related" for purposes of the "Sleekcraft" test. Consequently, it is very much an open issue as to whether these goods can be deemed "related" for purposes of the "Sleekcraft" test.

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c. The strength of the registered mark.

To determine a mark's strength, it is classified in one of the following four groups, listed in ascending order of strength: (1) generic, (2) descriptive, (3) suggestive, and (4) arbitrary or fanciful. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 112 S.Ct. 2753, 120 L.Ed.2d 615 (1992). At least for purposes of this motion there are serious questions as to how the consuming public views the PM trade dress in the marketplace and whether this dress can be considered "strong". As demonstrated above, there are far too many issues of fact and unanswered questions for this factor to be meaningfully assessed at this stage. The motion for preliminary relief should be denied.[6]

d. The marketing channels used

PM concludes the marketing channels are the same because "Defendants products are sold at gas stations and convenience stores, where MARLBORO® brand cigarettes are also sold." PM Memo., p. 11. This conclusory statement overlooks the critical fact that King Mountain markets and sells its cigarettes *only* to tribal businesses and entities, many of which are located on the Yakama reservation. Wheeler Decl. ¶ 10; Kip Ramsey Decl. ¶ 8. This distinction is significant because these businesses know and appreciate the significance of Mt. Adams on the cover of the cigarette package and understand that it has a completely different meaning and overall commercial appearance and impressions than does the Marlboro trade dress.

[6] Additionally, given that as of 1998 PM has been significantly limited in how it can advertise its products, there are serious questions as to whether its trade dress can be considered "distinctive" (assuming that it ever was) as of today. *See* Keyes Decl., Ex. J

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Hoptowit Decl. ¶ 17; Young Decl. ¶ 10; Kip Ramsey Decl. ¶ 10; Wheeler Decl. ¶ 4. Given this reality of how and to whom the King Mountain cigarettes are marketed, there are certainly questions of fact as to whether any overlap in these marketing channels creates the risk of confusion. The motion should be denied.

e. The degree of care likely to be exercised by the purchaser in selecting goods.

PM devotes two sentences to this factor, and concludes that "since cigarettes are a relatively inexpensive product, this factor favors a finding of likelihood of confusion." PM Memo., p. 12. Although it may generally be assumed that purchasers of "inexpensive products" exercise less care in their purchasing decisions, *see, e.g., Au-Tomotive Gold, Inc.*, 457 F.3d at 1076, this assumption evaporates here for at least two reasons. First, the only evidence produced on this issue shows that cigarette purchasers likely ***do*** exercise significant care and discernment in their purchasing decisions. For example:

> Research also shows that, in the case of cigarettes, consumers are likely to be more involved with the package than with most other types of products that they buy. In particular, an independent research paper notes that, "In the case of cigarettes, however, packaging is even more critical for several reasons. First, unlike many other products where the packaging is discarded after opening, smokers generally retain the cigarette pack until the cigarettes are used and keep the pack close by or on their person. Thus, cigarette packs are constantly being taken out and opened, as well as being left on public display during use....This high degree of social visibility leads cigarettes to be known as 'badge products.'" As such, there is likely to be a high degree of consumer care in the purchase of cigarettes, because they are not bought only for private consumption, but also as a means to express a social identity. In addition, since the package is experienced not only at the time of purchase, but through the use of each cigarette, this leads the consumer to be more familiar with the package design. Such familiarity can lead to

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> greater care in the decision process, as consumers would be better able to distinguish their brands from other brands.

Nowlis Dec. ¶ 15.

Also, smokers tend to be particularly "brand loyal." Nowlis Decl. at ¶ 16. The greater the brand loyalty of the consumer, the greater he or she is involved in the purchasing process. Nowlis Decl. ¶ 16. Greater involvement with the purchasing process leads to "greater attention toward, and comprehension of, product information." Nowlis ¶ 18. PM's conclusory and self-serving statement to the contrary is simply wrong.

Second, the premise that cigarettes are a "relatively inexpensive product" is simply incorrect as well. Many smokers spend anywhere between $2-$5 (and maybe more) per day on cigarettes, which can equate to a significant sum of money over the course of just a short period of time. Nowlis ¶ 14.

PM has produced *no* evidence to support its conclusory statement that smokers exercise "less care" in their purchasing decisions. The evidence produced by Defendants indicates the exact opposite to be true. Therefore, this factor does not remotely support the entry of an injunction.

f. The accused infringers' intent in selecting its mark.

PM has presented *no* evidence to suggest Defendants intended to infringe on PM's trade dress. In fact, the only evidence presented shows no ill intent. As noted previously, Mr. Wheeler wanted to select a trade dress that not only set the "King Mountain" product apart, but also captured the importance and significance of "Pahto" to the Yakama Indian culture. Wheeler Dec., ¶¶ 4, 6; Ramsey Decl. ¶ 10. Additionally, many of the King Mountain packaging features were dictated by

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functional considerations and are found on numerous other types of cigarettes packages. *See* Nowlis Decl. ¶¶ 26 and 30. Thus, there is no evidence to support a finding that there was any improper intent here.

The use of the placard "Like Marlboro?... Try King Mountain" shows no ill-intent. To the contrary, this type of "comparative advertising" is perfectly acceptable under the "nominative fair use" doctrine. *See, e.g. J.K. Harris & Co., LLC v. Kassel,* 253 F.Supp.2d 1120, 1125-26 (N.D.Cal. 2003) (holding that defendants' use of plaintiff's trade name to criticize the latter's tax services in Internet advertising was a nominative fair use); *see also, SSP Agricultural Equipment, Inc. v. Orchard-Rite Ltd.,* 592 F.2d 1096, 1102-03 (9th Cir. 1979) (holding that the defendant company did not infringe plaintiff's rights in its "TROPIC BREEZE" trademark by using the name in competitive advertising); *Smith v. Chanel, Inc.,* 402 F.2d 562, 563 (9th Cir.1968) (holding that a perfume manufacturer could advertise its "2d Chance" perfume by stating that the product was indistinguishable from "Chanel No. 5" as long as the advertisement "[did] not contain misrepresentations or create a reasonable likelihood that purchasers will be confused as to the source, identity, or sponsorship of the advertiser's product"). It is important to note that "[t]he nominative fair use defense covers use of another's trademark or trade dress even *if the goal is ultimately to describe or promote defendant's product*." *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.* (C.D.Cal. 2006) (emphasis supplied).

The "nominative fair use" doctrine applies when the Defendant establishes three things: first, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest

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sponsorship or endorsement by the trademark holder. *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002). Here, the "Like Marlboro?...Try King Mountain" advertisement satisfies these elements. There is no way to compare the products without using the name "Marlboro." The ad used the name "Marlboro" and did not combine any other elements of PM's brand or trade dress. Third, the "Like Marlboro?" rhetorical question does not create any association or confusion. In fact, by its very terms, it is trying to distinguish itself from the PM product.

Thus, if anything, the ad shows an intent to actually *distinguish* King Mountain from Marlboro cigarettes. Moreover the ad is perfectly acceptable as a nominative fair use in any event. An injunction is wholly improper.

g. Evidence of actual confusion.

"To constitute trademark infringement, use of a mark must be likely to confuse an *appreciable* number of people as to the source of the product." *Entrepreneur Media, Inc.*, 279 F.3d at 1151 (emphasis in the original); *see also, Kendall-Jackson Winery,* 150 F.3d at 1052 (noting that the standard is whether "a *significant* portion of the general public" is likely to be confused); McCarthy on Trademarks, § 23:13 at 23-35 ("[j]ust as one tree does not constitute a forest, an isolated instance of confusion does not prove probable confusion."); *Cohn v. Petsmart, Inc.,* 281 F.3d 837, 843 (9th Cir. 2002) (noting that "a lack of evidence about actual confusion after an ample opportunity for confusion can be a powerful indication that the junior trademark does not cause a meaningful likelihood of confusion."); *Official Airline Guides,* 6 F.3d at 1393 (upholding the district court's determination that "de minimis evidence of actual confusion" was not "persuasive" on this factor).

The most persuasive evidence of actual confusion is survey evidence showing

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that consumers are confused. *Cairns v. Franklin Mint Co.*, 24 F.Supp.2d 1013, 1041 (C.D.Cal. 1998). In fact, "a plaintiff's failure to conduct a consumer survey, assuming it has the financial resources to do so, may lead to an inference that the results of such a survey would be unfavorable." *Id.*; *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 55 F.Supp.2d 1070, 1084 (C.D.Cal. 1999); *Nautilus Group, Inc. v. Savvier, Inc.*, 427 F.Supp.2d 990, 997 (W.D. Wash. 2006) (The lack of evidence of actual confusion after an ample opportunity can be a powerful indication that there is no likelihood of confusion between the two marks); *Essence Comm., Inc. v. Singh Ind., Inc.*, 703 F.Supp. 261, 269 (S.D.N.Y. 1988) ("failure to offer a survey showing the existence of confusion is evidence that the likelihood of confusion cannot be shown"; preliminary injunction denied); *see also,* Nowlis Decl section II and III.

Philip Morris has failed to present survey evidence, even though it has virtually unrivaled financial prowess and has known of King Mountain's commercial activities for almost a year. *See* Wheeler Decl., Ex. 5; *see also,* Decl. of Paoli ¶ 15 (indicating PM has spent more than "***$3 billion*** advertising and promoting Marlboro cigarettes.") (emphasis supplied). Philip Morris' failure to come to court armed with this evidence suggests that there is no confusion being experienced here. *Eagle Snacks, Inc. v. Nabisco Brands, Inc.*, 625 F.Supp. 571, 583 (D.N.J. 1985) (trademark owner's failure to run survey to support claim of likelihood of confusion may result in inference that survey would be unfavorable thereby resulting in denial of relief); *Charles Jacquin et Cie, Inc. v. Destileria Serralles, Inc.*, 921 F.2d 467, 475-76 (3d Cir. 1990) (jury could infer plaintiff's failure to conduct survey indicated plaintiff's belief that survey would be unfavorable).

The sole declaration of an allegedly-confused "Marlboro" smoker does not show actual confusion for several reasons.

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First, confusion must be likely among an appreciable number of people. One declaration of "confusion" simply falls far short of showing that an appreciable amount of people are similarly confused. Nowlis Decl. ¶ 36.

Second, this declaration contains no foundation and at least two verifiably false statements. Warriner claims she purchased cigarettes in the Mabton/Grandview area. She does not state the date of the alleged purchase. She does not name the store where the alleged purchase took place. She does not provide the name (or even the gender) of the clerk that allegedly provided the wrong pack of cigarettes. These deficiencies alone make her Declaration of little probative value (if not less). The declarant also states she lives in Whitsran and that in "her town" the cost of Marlboros and King Mountains is $8.00 and $9.00, respectively. Warriner Decl. ¶¶ 1, 5. King Mountains are not sold in Whitstran. Hoptowit Decl., ¶¶ 4, 15; Wheeler Decl., ¶ 13. The closest store to Whitstran that sells King Mountains is 17 miles away at the Mabton Smoke Shop. Wheeler Decl., ¶ 13. There, Marlboros sell for $4.25 a pack or $42.30 a carton, and King Mountains sell for $2.50 a pack or $25.00 a carton. Hoptowit Dec., ¶¶ 13-14. This verifiably false and vague statement, at most, illustrates nothing and actually further underscores the very reason why surveys are performed in these types of cases.

Third, even if this single declaration could be said to show actual confusion (which it does not), the overwhelming amount of evidence to the contrary suggests that this "confused" customer did not "pay attention to obvious differences" between the products and instead assumed "common sources where most other people would not." *Entrepreneur Media, Inc.*, 279 F.3d at 1151; *see also, Newport Pacific Corp. v. Moe's Southwest Grill, LLC*, 2006 WL 2811905, *14 (D.Or. 2006) (noting that "[c]onfusion survey results below 10% are evidence that confusion is not likely.") (citing *McCarthy* § 32:189).

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Similarly, the "**initial** office action rejection" of King Mountain's trademark application by an examiner at the PTO does not show actual confusion. As the Board of Patent Appeals noted long ago: "In every case turning on likelihood of confusion, it is the duty of the examiner, the board and this court to find, upon consideration of *all* the evidence, whether or not confusion appears likely." *Application of E. I. DuPont DeNemours & Co.*, 476 F.2d 1357, 1362 (Cust. & Pat.App.1973) (emphasis supplied). Here, the "initial rejection" by the examiner was just that—initial. The examiner did not look at "all of the evidence" regarding how the "King Mountain" packaging is used or how it is perceived in the marketplace by consumers. *See* Keyes Decl. Ex. H (U.S. Serial Application 7866259). In fact, the examiner did not look at any evidence other than a computer-generated specimen. Second, PM fails to mention that the first trademark application filed by Wheeler in 2004 was *not* rejected by the PTO based upon "likelihood of confusion" with any PM product. This is significant because the specimen produced with this 2004 application (a specimen which was never used in commerce by Defendants in any event) is arguably *more* similar to the "Marlboro" trade dress than King Mountain's current packaging. *See* Keyes Decl. ¶ 10, Ex. I; *see also,* Wheeler Decl. ¶ 9.

In sum, Philip Morris, with all of its financial might, comes to this Court with a single (and verifiably false) declaration of one person who was purportedly "confused" between "King Mountain" and "Marlboro." No survey evidence is produced notwithstanding that: (i) PM has virtually unrivaled resources and; (ii) King Mountain products have been on sale for almost a year. The anemic evidence produced in support of "actual confusion" simply does not support the entry of injunctive relief, particularly in light of all of the evidence to the contrary. Therefore, the injunction should be denied.

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3. PM Failed To Carry Its Burden of Establishing Dilution.

The entry of a preliminary injunction for trademark dilution is an "extraordinary" remedy. McCarthy, *supra* at § 24:92. In order to secure a preliminary injunction for trade dress dilution under either state or federal law, Philip Morris bears the burden of demonstrating a substantial likelihood that its trade dress is famous, that Defendants have adopted or appropriated this trade dress, and that that Defendants' trade dress is damaging the Philip Morris trade dress by blurring its distinctiveness, tarnishing or disparaging that trade dress. Philip Morris fails to meet its burden. First, at least one court has held trade dress cannot be "diluted" as a matter of law. *Planet Hollywood, Inc. v. Hollywood Casino Corp.*, 80 F. Supp. 2d 815, 901 (N.D. Ill. 1999), clarified, 1999 WL 1186802 (N.D. Ill. 1999) ("The Court concludes that Section 43(c) was not intended to provide a cause of action for trade dress dilution . . . .") Second, even if the word mark "Marlboro" may be famous, there is no evidence to suggest that the "trade dress" design of the Marlboro packaging itself is famous. Third, PM provides no evidence that there is any "dilution" occurring or that it is likely to occur. The sole affidavit from an alleged "confused" purchaser says nothing about how the King Mountain "blurred" the alleged distinctiveness of the Marlboro brand or otherwise tarnished the "Marlboro" trade dress. Consequently, the motion for preliminary relief based on this basis must be denied as well.[7]

4. An Injunction Would Cause Extreme Hardship To Defendants.

PM has known of King Mountain for almost a year. Wheeler Decl. ¶ 12, Ex. 5.

[7] Because PM has failed to establish a violation of the Lanham Act, it likewise has failed to establish a claim under its state common law and statutory causes of action.

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Yet, it waited for King Mountain to take its goods to market and then, almost a year later, sued it and moved for an injunction. This delay in bringing suit and the present motion for injunctive relief shows that PM USA is not suffering any irreparable harm. If the injunction is issued, it would be Defendants that would be harmed significantly. All of the evidence produced thus far demonstrates: (i) there is no actual confusion being experienced; (ii) that consumers in the marketplace recognize the King Mountain brand as a unique Indian product; and (iii) King Mountain is produced a high quality value brand cigarette. In light of all of these facts, it would cause a tremendous commercial hardship for King Mountain to be restrained.

5. If An Injunction Is Issued, PM Should Be Required To Post A Substantial Bond.

Under Rule 65(c), before an injunction can issue, a bond must be posted that is equal to the "costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained." Defendants will be prepared at the hearing on the preliminary injunction to present evidence that the appropriate amount of the bond should be in the tens of millions of dollars.

IV. CONCLUSION

For the reasons stated above, the motion should be denied.

DATED this 17th day of October, 2006.

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CERTIFICATE OF SERVICE

I hereby certify that on the 17th day of October, 2006, I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF System which will send notification of such filing to the following:

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